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Morris L. Crouse

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Reporting and Analysis of Results

by Morris L. Crouse
Partner, Chicago Office

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It has not been my privilege to hear the preceding speakers, but from what I know of their competency as a group to deal with the assigned subjects, I am sure you have been well enlightened in the basic philosophies and principles of profit planning as a management-control tool. Some of what I have to say is bound to be repetitious of their comments. It has been my experience, however, in attending meetings of this sort, that basic concepts can stand a considerable amount of repeating as long as they are structured in the light of different individuals' actual experiences. We need constantly to be reminded of basic concepts or we stray a little too far from them. In preparing today's talk I have found it refreshing to rethink my own way through just what are the fundamentals of sound reports.

MANAGEMENT PRINCIPLES: THE KEY TO REPORT REQUIREMENTS

Mr. Edward C. Schleh, President of Schleh Associates, Inc., Management Consultants, in his book entitled *Management by Results*[1] points out that the whole of sound management is based on principles. An axiomatic principle of effective management calls for successful delegation of work effort and duties. Mr. Schleh emphasizes a point that ties in with the theme of this seminar, Profit Planning. He points out that the key to successful delegation is to delegate by the results you expect. These projected results should be quantified to a maximum practicable extent into meaningful figures and amounts.

By way of example, to show the application of this principle, compare the probable effectiveness of the following two ways of outlining objectives for a Sales Manager:

A. During the coming year, get in touch with all dealers in your territory, encourage them to step up their calls on customers, and assist them in every way possible with display materials and sales training. Meanwhile, keep the costs of your department to a minimum.

[1] Edward C. Schleh, *Management by Results,* New York, McGraw-Hill.

OR

B. We expect a volume of $315,000 of sales next year from this territory, with a minimum of 5 per cent in returns and discounts allowed; in addition, contract with ten new dealers to carry our line. Except for commissions and travel expenses, which will be proportionate to sales, you should accommodate this increased volume without increase in other departmental costs.

Obviously, the task is better defined by Example B. But more important, we can quickly grasp the greater significance of Example B in relation to the subject of reporting or feeding back of actual results at a later date.

Anyone who carefully considers the probable advantages of a definitive type of profit-planning program must certainly be convinced of its contribution to more effective operations and an assured profit. Taking a forward look (in specific rather than in general terms) at all areas of the business that affect operating profit, return on investment, and the growth of the company is bound to pay off. But regardless of the care exercised in the development of plans and budgets, results have a way of being different than expected. The greatest advantage, therefore, comes with a reporting system that shows with impact and clarity where and why the results were what they were.

In nearly 25 years of business and professional experience, I have had occasion to look closely into a great many management reporting and control systems. While the number of companies that prepare reports within the frame of reference of a specific plan and budgetary control system is increasing, I am amazed at the frequency with which we find operating reports going to various levels of management not prepared on a comparative basis or showing comparisons only with the results of previous periods.

Now let's look at an encouraging side of the story. There are interesting opportunities available to those of us who believe in budgetary controls and variance-type reporting. We can make an important contribution to the profitability of the companies in which we are interested. In the Management Advisory Services work in the firm with which I am associated, I find it a genuine pleasure to help develop this kind of program. Without exception, within the scope of my knowledge, client management has been pleased with the improvement in decision-making ability and over-all results coming from this effort.

How do we go about designing the reporting system? Like most problems for which solutions are sought, there are quite a number of things we should find out, and think about, and do, before we "begin to" commence. At least, there are a number of considerations to be resolved before we take pencil and ruler in hand to draw up some forms or write some procedures.

DEFINING THE REPORTING PROBLEM

In developing a reporting structure, it is important to recognize that reports, particularly management-control reports for a specific business, represent a problem area susceptible of study as a separate problem. This should be done outside the restriction of existing systems and methods. Necessary improvements, requiring longer periods of time to develop, can follow. A considerable amount of organized thinking, before starting to do anything, will pay off in a better integrated structure and fewer overlapping efforts. I should like to suggest a list of ten questions to be answered as an approach to report development that will prepare the ground for a well-organized and useful harvest of management information:

- Have you developed a satisfactory definition of a useful management report?
- Have you established some basic rules that your reports must comply with to meet an acceptable standard of quality?
- What are the appropriate time cycles for issuing reports against budgets and forecasts?
- What correlation should be established between budget reports and conventional financial and operating statements?
- How detailed should the reports be? Will a pyramiding principle be used that associates reporting requirements with the company's organizational structure?
- What basic reporting format should be used? Should certain arrangements be selected as a standard pattern, and when should change-of-pace be used?
- In addition to figures, will charts, graphs, and narrative presentations be used? If narrative comments are planned, who should prepare them?

- How should reports be presented and distributed? If meetings are considered appropriate, who should conduct them?
- How often are forecasts to be revised? How will these revisions be reflected in the reports?
- What are the principles to be employed in administering the reporting system and making appropriate improvements?

I shall use most of my remaining time in suggesting some answers for these questions and ways to arrive at acceptable solutions, or perhaps in doing both.

DEFINING A MANAGEMENT REPORT

I suggest that we can best define reporting requirements by looking at them in the light of their purposes and functions.

Classifying reporting requirements broadly according to purposes, we can start out by saying that the conduct of every business requires two basic types of data. First, there are reports required to meet the demands of management for keeping informed on the various branches of the business in order to plan operations, evaluate performance, make decisions, and take action. The second class of report supplies data required to meet corporate and legal requirements, including reports to stockholders, stock exchanges, SEC, Internal Revenue Service, banks, insurance companies, and other outside interests.

Much of the information required to meet managerial needs may be optional and have alternate approaches in its development and in report format. The financial type of data tend, on the other hand, to require greater conformance to established conventions; however, it is not generally necessary or appropriate to reflect in corporate financial reports comparisons of actual and planned data. The reports serving the management information and control needs—the first category described—are the subject of today's discussions.

Looking, therefore, to the purpose and function of reports as we will discuss them, we find that most writers on the subject are in general agreement that they should convey information useful in evaluating a condition, making decisions, and generating action. Note that we say information and not data; there is a difference. Action that we wish to generate should be of a corrective, continuing, or accelerating nature. The reports must encompass this function as needed for all levels of management, be it at the top, in middle management, or at the production line.

Summing this up, I like to define a management report as an informational document designed to serve the purpose of some level of management in making decisions and controlling the activity for which that level of management is responsible.

MEETING ACCEPTABLE STANDARDS OF QUALITY

In this connection the accent should be placed on clarity, accuracy, and impact. It is the quality of the content more than the form that pleases the recipients of reports. We should try to achieve neatness, balanced eye appeal, and ingenuity in report presentation, but these are not primary concerns. Many accountants are doing an excellent job of reporting through the use of facsimile reproductions of long-hand figures entered on simple forms. According to my earlier definition of reports in terms of functions, you will remember that we are only seeking interest in and understanding of the contents. After all, this kind of information cannot be expected to generate a rousing enthusiasm or appreciation on the part of the reader while pointing out variances, particularly if the showings are unfavorable.

Quality control over reports demands emphasis on intellectual honesty. We all agree with the old saying about "figures not lying," but we should guard against even a little window dressing or editing that might create an inaccurate evaluation. Accent on consistency is important; however, flexibility is important too when dictated by changing situations or requirements. These two seemingly opposite objectives are logically blended into one by providing clear and concise footnotes pointing out the reason for and effect of any change in reporting procedure.

My next point in this brief pleading for quality in management reports is axiomatic, yet in practice it is often slighted. By this I mean the attention that must be given to appropriate procedures and controls to assure to the supporting records the accuracy of input data. Double-entry bookkeeping with balanced debits and credits is not enough. Sloppiness in coding, in key punching, in revenue and expense distribution, etc., can raise havoc with the confidence level of the recipient of reports.

As a last reminder in connection with quality, remember that brevity usually contributes to impact, and at the same time is considerate of the reader's valuable time. Reports that limit themselves to the setting forth of exception conditions fit in well with this objective of brevity.

TIME CYCLES

It is useful and necessary in the construction of an integrated reporting scheme for a business to classify reports in a number of ways. One helpful classification deals with the cycle of preparation.

A determination of the most appropriate time intervals for preparation of each report—that is to say, whether it should be daily, weekly, monthly, or at some other interval of time needs careful consideration. Frequent reports on matters that cannot be the subject of frequent decisions will lose their effectiveness. Reports covering activities over an undue span of time will result in decisions that are too late.

Performance reports are historical in nature in that they relate to a period that has ended. Management needs periodic reports to supplement personal observation and other indicators of whether planned performances are or are not being achieved. If we wait to the end of a substantial span of time to issue all reports, there is no provision for interim evaluation during the execution of the plan. Reporting systems that do not make information available at strategic intervals throughout a period covered by a plan do not provide effective control tools.

The basic requirement of control entails subdivision of the time period covered by the plan into a series of interim time periods with specific objectives for these periods. It is in these short-range, control-purpose areas that we utilize predetermined norms, standard costs, and the like as the basis of comparison with actual results. Reporting requirements for weekly and daily control needs or, if the situation calls for up-to-the minute information, at shorter time intervals are often satisfied by statistical measurements of some type. Some of the most helpful information may be contained in numbers representing something other than dollar amounts as, for example, the following:

Sales volumes
Cost ratios
Percentages of variations from norms and standards
Man-hour requirements
Production yields
Quality control statistics
Capacity utilization percentages
Profit-volume ratios, etc.

The objective of proper timing will be met by providing an accurate measure of actual results, compared to plan, or to standards which are integral parts of the plan, quickly and simply, so that timely action can be taken where needed.

RELATIONSHIP OF BUDGETARY CONTROL REPORTS AND REGULAR STATEMENTS

I pointed out earlier some differences between the reporting requirements for management control and for meeting conventional corporate needs. It is this internal reporting requirement that puts our ingenuity as accountants to the test. This is because, first, in giving consideration to the development of reports from a management point of view we must understand management's problems and what management expects or should expect from accounting. Secondly, for maximum efficiency of the system, we should accommodate the financial reporting requirements in accordance with generally accepted accounting principles with minimum duplication of effort, least possible reclassification, change in detail, or manner of presentation of the data.

Simply stated, I think there should be maximum correlation and agreement of the performance reports with other statements and records of the business, or in the absence of these conditions, a reconciliation. In addition to the efficiency objective just mentioned, we need this basic agreement of data to give everyone complete confidence in the information.

DETERMINING AMOUNT OF DETAIL TO BE PRESENTED

It is generally appropriate to relate the question of detailed versus condensed information to the organization level of the persons for whom the reports are prepared. In Sord and Welsch's book on *Business Budgeting,*[2] the chapter on Control-Reporting contains the follow statement:

> The effectiveness of the control process is dependent to a large degree upon reliable measurement and reporting of actual performance in terms of organizational responsibility. This requirement creates a need for an accounting system precisely tailored to fit the organizational structure. With such an

[2] *Business Budgeting—A Survey of Management Planning and Control Practices—* a research study and report prepared for Controllership Foundation Inc. by Dr. Burnard H. Sord and Dr. Glenn A. Welsch.

accounting system, accurate and periodic performance reports by organizational units are possible.

The pyramid principle generally reflected by organizational structures is applicable to report structures. At the base of the pyramid are the line supervisors having the most direct control over the utilization of materials, labor, equipment, and other corporate assets. It is, therefore, logical to supply these persons with the most detailed information. Major department heads, on the other hand, can usually better utilize reports that group expenditures or other data into significant classes, by cost centers, or other organizational units. Underlying detail must, of course, be available when called for.

Accountants must recognize that individual managers have different appetites for detail, and many actually have the ability to assimilate masses of statistical data. We must have an attentive and sympathetic ear for the requests made for various types of information. True, the solution to the problem of effectively reporting to management requires more than asking management people what they want, but extends to determining what they need. This is not easy, and the accountant must tread carefully here. Efforts to shape the reporting format and content in a manner contrary to the expressed wishes of management or individuals therein must be tactfully carried out. The practical rule is to give in with all possible grace if you can't sell your views by force of their logic.

As a guide in determining how much detail to publish regularly, the reports should attempt to answer questions that are always asked. The system should be relied on to answer questions that may be asked.

The necessary compatibility of the profit-plan details (as originally developed and approved) with report details is a further criterion in arriving at degree of condensation of performance data. The variations between actual and planned amounts must be susceptible of understandable analysis. In other words, it generally works out that the forecasting and budget development formats look the same in regard to number of line items and sequence of data as the reports.

Finally, I think the same admonition applies in regard to choosing the appropriate amount of supporting details as mentioned earlier in regard to quality of reports—that is, brevity will contribute to impact.

SELECTION OF REPORT FORMAT

I suggested earlier that some careful advance thought should be given to report format. The implication is not intended, however, that there is only a certain acceptable arrangement and layout of the information. On the contrary, there is room for considerable ingenuity and it should be encouraged in order to meet the needs of the particular circumstances.

There is a contribution to easy understanding in threading a consistent pattern throughout the reports within a given company. For example, it is helpful to the reader to become accustomed to having total columns consistently shown on one side or the other of detail columns, monthly information regularly displayed in a certain position relative to year-to-date information, non-monetary control statistics boxed in a special location near the top or bottom of the page, and so forth.

At the same time, there is merit in generally freshening up the report structure at intervals of, say, every couple of years. This change of pace will draw attention to the report content and stimulate reader interest that might otherwise lag. Stale descriptions will be eliminated and more current ones created. In some instances, entire reports will have lost their significance and can be dropped, and other reporting needs recognized and fulfilled. Normal resistances to change will be incurred, and objections may be raised that, "Now we can't compare the results of current operations easily with those of other years." The better view, however, is that these changes are of significance only at the time forecasts, plans, and budgets are being prepared. Once this is accomplished and proper emphasis is placed on reporting actual figures in comparison with budgetary control data, it becomes obvious that prior period results are about as useful as a last-year's news magazine.

The material appended contains operating report formats illustrating a few rules of presentation which I think are becoming quite common practice, as follows:

- Avoid displaying figures for last month, same month last year, and last year to date.
- Whenever multiple columns of figures are shown with common item descriptions, locate the descriptions near the center of the page. This arrangement is particularly appropriate when

current-month and year-to-date information is on the same page.

- Arrange information to call attention to variations from plan, rather than on total amounts. Ways of accomplishing this are:

  a) If a number of reports are submitted as a package, place a summary type of variation analysis as the top report.

  b) Reduce reading time by showing only planned figures, or only actual figures with variation amounts, percentages, etc., but not both actual and planned data. (Some systems accountants suggest showing only the variation amounts, but this does not lend itself to quick recognition of relative magnitude. Being off one thousand dollars from plan is of greater significance in an account with a planned expenditure of $10,000 than if the expected total is on the order of $100,000).

  c) Identify variation amounts by terms such as "favorable/unfavorable" rather than "increase/decrease."

- Eliminate cents from amount columns, and whenever appropriate in view of the size of the numbers, eliminate the least significant three digits of the dollars.

- Use liberal amounts of white space.

USE OF CHARTS, GRAPHS, AND NARRATIVE COMMENTS

The effective use of charts, graphs, and other pictorial ways of displaying information definitely has a place in the report structure of a business enterprise. It is particularly effective at group meetings and before audiences of plant and engineering people. Bar charts and linear illustrations are fine ways to show comparative or related data and trends.

It should be remembered, however, that only a limited amount of information can be displayed on a single graph or chart if we wish to achieve quick understanding and impact, generally the objective of this kind of presentation. This suggests the logic of being fairly selective in determining appropriate data, or else an excessive number of charts and graphs will ensue, with resultant high cost of preparation. I can recall one medium-size metal fabrication company wherein there were between 50 and 60 charts prepared on a regular monthly basis for which an outside charting specialist was being paid about $650 a month. There didn't appear to be more than ten of these which were being regularly used in monthly supervisor's meetings; the remainder had occasional value to the top three or four officers of the company and contained information easily and understandably available in other forms.

Carefully developed graphs and diagrammatic presentations can be particularly helpful in explaining accounting-type results and relationships to non-accounting people. Frequently used examples are the various ways of showing fixed and variable cost relationships in break-even charts. Nomographs, which are somewhat like slide rules, can be effectively used (and re-used over and over) for more technical presentations of related conditions, such as illustrating combinations for maximizing profits through various sales mixes, use of economic order quantities, and the like.

Probably the best publicized example of the effective use of charting techniques is contained in a booklet available from AMA describing the Du Pont chart system for appraising operating performance. The NAA has occasional articles on graphic presentations, and a particularly helpful one appeared in their October 1961 Bulletin, Section 3.

Brief narrative comments should be regularly employed as supplementary information. Significant explanations of variations between actual and client performance, reconcilements necessary because of budget changes or other factors not readily understood by non-accounting personnel, and useful information about future periods all add materially to the usefulness of reports. Some accountants prefer to have a separate narrative section of a report package; if the reports are bound, I prefer to see pertinent comments placed on the page facing each applicable report, or at the bottom of the page if space is available. The latter approach is particularly effective if each manager in a responsibility reporting scheme can be encouraged to write his own comments about his operation.

From a practical view point, there are some advantages to leaving the task of developing narrative comments to the chief accounting officer. He is more likely to be able to organize this effort to coincide with the timing requirements and due dates of the reports. In addition, he should be in a better position to present interpretive comments without bias. He must, however, be certain of his facts or his comments will backfire.

METHOD OF PRESENTATION

Notwithstanding all of the emphasis on timely, highly condensed flash reports to upper echelons of management, and on-the-spot reports of details to operating supervisors, much significant report development relates to a monthly period. I shall confine my comments about method of presentation to these conventional and regularly prepared monthly reports. Generally speaking, it works out best to have all of the monthly operating reports for each level of management and related statements of condition published and distributed at the same time. The due dates should be in accordance with a predetermined schedule stated in terms of a certain number of working days after the close of the period. Someone might logically ask why all reports should be withheld until the last ones are finished. The answer is that, even with a manual system, once trial balances are taken off and in readiness it does not take long to prepare, edit, carefully intercheck, and review for reasonableness and accuracy all reported information. This again is just another part of the quality control emphasis discussed earlier.

Monthly management meetings for the purpose of discussing the reports, evaluating performance as therein disclosed, and reaching agreements upon indicated action are highly desirable. It has been my observation that everyone agrees with this, but in practice strict adherence to the schedule of meetings is more honored in the breach than in the observance. The meetings may have top management endorsement and even a period of energetic occurrence, but a lot of discipline is required to keep them going. Vacations or other absences on the part of key persons, special crises of one kind or another, or other interferences tend to make them degenerate. Nevertheless, as stated at the beginning of this talk, the reports provide the real harvest of decision tools for management use. What a waste of time and effort to do less than insist upon managers spending an hour or so carefully reviewing the crop of results and related analyses!

The number of separate meetings, the persons attending, and the selection of the person best qualified to conduct the sessions are matters depending on size of company and number of levels of management in the organizational structure. Generally there are distinct advantages to having each session chaired by the highest level officer or supervisor concerned. The Controller or other accounting representative should be present to assist in any way he can, but only in his true staff function.

FREQUENCY OF REVISIONS

The most common span of time for which intensive plans and budgets are developed is for a calendar or fiscal year. As factors and conditions change during the year, adjustments of the original plan may become necessary in order to keep the variation amounts from becoming so large that performance variations are over-shadowed by known variations in the plan. Differences of opinion may arise on (a) how often budgets of fixed costs, variable cost rates and/or projected sales should be changed and (b) whether this should be done at regular intervals or as necessary because of the occurrence of significant modifications of projected costs, volumes, or prices. When budgets are revised, some managements want both variations shown —that is, between actual and revised and actual and original amounts.

Frequent changes in the profit-plan figures can sometimes be discouraging to department heads striving to make a favorable showing. They say, with some justification, that every time they approach scoring position, someone changes the goal posts or the ground rules. The other side of the argument centers around attempts to keep variation analysis largely related to good or bad performance and not dealing with matters beyond supervisory control, such as price levels, wage rates, and abnormal volume fluctuations.

The final resolution of this question, it seems to me, is up to management. The accountant should make certain the alternatives are understood by management and then be flexible enough to set up his procedures in accordance with the desired approach.

I think it is not too important exactly how the matter is resolved, but only that the question be considered and an approach be decided upon which management understands. A spirited debate among management personnel to decide how and when budget revisions should be recognized is a good sign, as it indicates they are taking their planning seriously.

As a general proposition, a satisfactory approach often works out along these lines:

a) Develop the annual profit plan before the start of the year by breaking down the first quarter into months, and showing the second, third, and fourth quarters without monthly breakdowns.

b) During the third month of each of the first, second, and third quarters, take into account known revision factors of real significance and project the ensuing three months and remaining quarters accordingly.

c) Provide management with a quarterly summary statement, showing the effect of budget revisions upon planned profit for the year; thereafter, show variation amounts only in relation to revised figures.

There can be a number of acceptable modifications to this approach that will meet the objective of providing for good variation analysis. Customer, manufacturing, and purchasing lead times are among those factors which bear upon the best solution in an individual instance.

ADMINISTRATION OF THE REPORTING SYSTEM

Profit planning is a philosophy that needs constant application, frequent review, and interpretation. It is not an instrument to be locked in a desk drawer and only dusted off on special occasions. Management must be sold on the concept that carefully developed reports comparing actual operations with planned operations are the substance of which sound decisions are made. They should be conditioned to expect to wait as long as two years before appreciable benefits can be demonstrated. Even then, benefits accrue only if management personnel act and re-act in responsible accord to the signals that are developed for them. In the planning process, product mix studies, economic run comparisons, and production plans will bring up many decisions to be made relative to inventory levels, storage requirements, employment levels, etc. Administration of the reporting system, if it is to be effective, must include a continual encouragement to management to use these tools. Within limits of prudence, it requires an educational and selling job on the part of the accountant.

Sometimes, when writing job descriptions, we say that the controller's office is responsible for the overhead cost incurred on the reports developed within that department. A figurative offsetting credit is available only upon assurance that the reports are effectively utilized. Otherwise, they should be withdrawn.

As stated earlier, attention should be directed at reasonable intervals to improving the form and alignment of the reports. We have also discussed briefly the problem of keeping planned data appropriately updated during the fiscal year. However, successful budgeting depends more on sound organization and administration of the various functions of the enterprise than it does on the technical refinements or particular methods employed. This requires full coöperation throughout the company and a working understanding among the people using the reports.

An additional basic principle for successful implementation and administration of the planning and reporting system is to assure complete understanding by all members of the management team as to who has been designated as "in charge" to direct the accumulation of data, assemble the budgets, supervise procedures, and assist in interpretation of results.

REVIEW OF EXHIBITS

The exhibits are quite self-explanatory and serve to illustrate some of the points made earlier.

Exhibit 1 repeats the check list of ten points which provided the frame of reference for nearly all of my foregoing remarks.

Exhibit 2 illustrates a technique which is extremely helpful in conferences with executive management personnel to explain the over-all approach to management reports. A schedule like this, particularized for a given company in terms of major control areas, methods for planning activities in each of those areas, accounting for them during the performance cycles, reporting results, and names of persons who are to receive the reports, is convincing evidence that the report structure is complete and well integrated.

Exhibits 3 through 10 are slightly modified versions of monthly reporting structure presently used by one of our client companies. Your attention is particularly directed to Exhibit 3 entitled *Report on Profit Plan.* It represents the apex in the pyramid of reports and summarizes what should be extremely interesting and understandable information for the busy executive. A simple subtraction at the top of the page shows the month and year-to-date deviations between actual and planned profits. The rest of the page is devoted to analyzing these variances in significant categories by areas of responsibility. More detailed information regarding each category is available by reference to underlying reports.

Exhibit 11 is submitted as amplification of my earlier remarks regarding ways of dealing with interior revisions to the profit plan. You will recall that I outlined an approach that would provide management with a quarterly summary of budget revisions. After providing this summary information and supplying appropriate explanations, subsequent monthly reports can be supplied with variation amounts relating only to revised figures at all levels of reporting detail.

CONCLUSION

In summary, I have suggested a check list of questions designed to provide an orderly approach to reporting on forecast results. The list is not all-inclusive; there are many other questions which obviously bear upon the report development in a given organization. Such matters as nature of the business, calibre of the staff, general profitability of the company, and special regulations and controls must all be considered. The specific questions to be answered are not as significant as the recognition of a need to study reporting requirements analytically as a separate problem.

The function of reports is to close the control loop enabling management personnel to evaluate results specifically in relation to plans and generate action toward correcting, continuing, or accelerating the plans. In order to fulfill this function, we must prepare for report content identifying levels of accomplishment at useful intervals of time by areas of responsibility.

Administration of the reporting program and of the supporting records and procedures is a basic accounting function. Administration of the profit plan through the utilization of properly pyramided reports is the responsibility of management at all levels. A well-planned and administered reporting system, responsively received by an alert management, will best assure a full harvest of planned results.

EXHIBIT 1

CHECK LIST FOR ORGANIZING A MANAGEMENT REPORTING PROGRAM

1. Have you developed a satisfactory definition of a useful management report?
2. Have you established some basic rules that your reports must comply with to meet an acceptable standard of quality?
3. What are the appropriate time cycles for issuing reports against budgets and forecasts?
4. What correlation should be established between budget reports and conventional financial and operating statements?
5. How detailed should the reports be? Will a pyramiding principle be used which associates reporting requirements with the company's organizational structure?
6. What basic reporting format should be used? Should certain arrangements be selected as a standard pattern, and when should change-of-pace be used?
7. In addition to figures, will charts, graphs, and narrative presentations be used? If narrative comments are planned, who should prepare them?
8. How should reports be presented and distributed? If meetings are considered appropriate, who should conduct them?
9. How often are forecasts to be revised? How will these revisions be reflected in the reports?
10. What are the principles to be employed in administering the reporting system and making appropriate improvements?

Some Other Basic Requirements

- Confine information to essentials.
- Assure accuracy of data.
- Always provide a basis of comparison.
- Accent out-of-line performance.
- Issue reports promptly as scheduled.
- Practice economy in preparation, without sacrificing neatness and legibility.

EXHIBIT 2

MANAGEMENT CONTROL AND REPORT SCHEME

MAJOR CONTROL AREAS	PLANNING	ACCOUNTING	REPORTING	DISTRIBUTION
OVERALL OPERATING RESULTS Profits Return on investment Contribution to period costs and profit by product lines	Objectives determined and used in conjunction with the overall company profit plan	Actual sales and lease dollars Direct product costs Manufacturing, engineering, selling, general, and administrative expenses Capital expenditures	Monthly income statements comparing actual and planned results Percentages of earnings on assets employed Margins earned by product lines	Distribution of all reports tied to assignment of authority and responsibility under organization plan - only one position receives report for control purposes - others may receive for information and planning purposes if report is related to their assigned functions In actual practice, names of individuals or job titles would appear in this column.
FINANCIAL POSITION Balance sheet Cash position and requirements Accounts receivable status Collection performance Inventory position and trend Capital projects and status Borrowed capital	Pro-forma balance sheets developed to show results of planned operations and capital expenditures	Actual dollars by account, summarized by balance sheet classifications	Comparative balance sheets, statement of sources and application of funds	
SALES Gross sales and lease dollars by product line and geographical area Volume Price Mix Profitability Adjustments and discounts	Forecasts of sales by type, kind, and responsibility area Plans and policies in regard to prices, discounts, allowances, advertising, commissions, etc. Conversion of planned sales to planned marginal contribution	Results accumulated in terms of: Units Dollars By product and product line By geographical and responsibility area	Actual sales and variations from forecasts Relationships of volumes to break-even points under same premises as used for budget development Effect of mix, price, and volume changes on marginal contribution of each class of sales	
PRODUCT COSTS Material Productive labor Variable burden	Fabrication and assembly schedules developed to meet optimum requirements of inventory levels and customer demands Production plan extended at standard costs	Production activity recorded in terms of: Material receipts, issues, and prices Labor hours used and payroll distribution Expenditures for items classed as variable burden Variations from standard Units produced	Operating reports by accountability and cost centers Actual activity reported at standard costs, showing variations from standard: Material price and usage Scrappage and routing Labor rate and efficiency Expense spending and efficiency (Budget allowances determined by applying predetermined rates to actual hours)	
PERIOD COSTS Unused capacity costs Manufacturing expenses Engineering: Departmental expenses Project costs Sales department operating expenses General and administrative expenses	Budgets of expenses and project authorizations	Actual expenses recorded and distributed to proper accounts Supplementary records of research, development, and other project costs	Actual expenditures and variations from those planned	
QUALITY CONTROL Levels Costs	Standards developed to meet customer requirements and Company cost objectives	Rejects recorded, showing location and cause	Rejects, rework, scrap, and customer returns	
PERSONNEL Requirements Turnover Promotability	Requirements determined based upon levels of planned activity Organization guides - job descriptions Periodic reviews and evaluation Retirement programs	Manpower/headcounts maintained in all functional areas Employment records History files	Actual numbers of persons vs planned Labor turnover Retirements and disabilities	
OTHER CONTROL AREAS	As appropriate	As appropriate	As appropriate	

EXHIBIT 3

REPORT ON PROFIT PLAN

	MONTH ENDED MONTH	YEAR TO DATE	1963 TWELVE MONTH PLAN	Description of Variances
NET INCOME BEFORE TAXES:				
Original plan				
Authorized revisions to plan - increase (decrease)				
Revised plan				
Actual				
GAIN OR (LOSS) FROM PLAN				
SOURCE AND CAUSE OF GAIN OR (LOSS)				
RESULTING FROM SALES:				
Volume variance				Gain or loss in gross margin due to changes in volume.
Discounts and price adjustments				Gain or loss in gross margin because discounts and adjustments varied from plan.
Product mix variance				Gain or loss in gross margin due to shift in quantities of products having different margins.
Sales spending variance				Spending more or less than planned
Total sales responsibility				
RESULTING FROM MANUFACTURING:				
Material price variance				Amounts developed under standard cost system as of deviations between actual and standard costs.
Material usage variance				
Labor rate variance				
Labor efficiency variance				
Scrappage variance				
Routing variance				
Variable burden spending variance				
Variable burden efficiency variance				
Variable burden - net service variance				
Manufacturing spending variance - period costs				Spending more or less than planned.
Total manufacturing responsibility				
RESULTING FROM ENGINEERING:				
Engineering spending variance				Spending more or less than planned.
RESULTING FROM ADMINISTRATIVE:				
Unused capacity cost variance				Spending more or less than planned.
General and administrative spending variance				
Non-operating income and deductions (net)				
Inventory adjustment - period costs				Variation from planned fixed burden complement.
Deferred research and development (net)				Variation from planned adjustment of deferred expense.
Total administrative responsibility				
Total gain or (loss) from plan - as above				

EXHIBIT 3

EXHIBIT 4

STATEMENT OF INCOME

MONTH ENDED 1963

% OF NET SALES (THIS MONTH)	ACTUAL (THIS MONTH)	PERFORMANCE FAVORABLE (UNFAVORABLE) (THIS MONTH)	SCH. NO.	DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE) (YEAR TO DATE)	ACTUAL (YEAR TO DATE)	% OF NET SALES (YEAR TO DATE)
				GROSS SALES DOLLARS			
				Less discounts and price adjustments			
				NET SALES DOLLARS			
				Less variable product costs - at			
				GROSS MARGIN CONTRIBUTION			
				Less variances - Product costs			
				NET MARGIN CONTRIBUTION			
				Less period costs:			
				Manufacturing			
				Engineering			
				Sales			
				General and administrative			
				Unused capacity			
				Total			
				NET OPERATING INCOME			
				NON-OPERATING EXPENSES (Income) - Net			
				INVENTORY ADJUSTMENT PERIOD COSTS			
				DEFERRED RESEARCH AND DEVELOPMENT (net)			
				NET INCOME BEFORE TAXES			
				OPERATING DATA			
				BREAKEVEN VOLUME			
		%		BREAKEVEN VOLUME % OF NET SALES			%
				GROSS ASSETS			
		%		% RETURN ON GROSS ASSETS			%

Calculations Required

Break-even volume = $\dfrac{100}{\%\text{ Net Sales} - \%\text{ Variable Expenses}} \times$ Period Expenses

Break-even volume % of net sales = $\dfrac{\text{Computed Breakeven Volume}}{\text{Actual Net Sales}}$

Gross Assets = Current Assets + Gross Property Accounts

% Return on Gross Assets = $\dfrac{\text{Net Profit}}{\text{Gross Assets}}$

EXHIBIT 4

EXHIBIT 5

OPERATING REPORT

MANUFACTURING MANAGEMENT

MONTH ENDED ____________ , 1963

........THIS MONTH..........				........YEAR TO DATE........	
ACTUAL	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACTUAL
			<u>VARIANCE ANALYSIS</u>		
			Direct labor - rate		
			Direct labor - efficiency		
			Burden - service labor rate		
			Burden - service labor efficiency		
			Burden - spending		
			Operating - material usage		
			Operating - material price		
			Operating - service activity		
			Operating - scrappage		
			Operating - routing		
			Total variances from standard		
			<u>OPERATING COSTS - Period</u>		
			Manufacturing administration expenses		
			Production control		
			Foreign manufacturing		
			Purchasing		
			Manufacturing engineering		
			Other period costs units		
			Total		
			<u>OPERATING COSTS - Production & Service</u>		
			Quality control		
			Plant engineering		
			Production Division A		
			Production Division B, etc.		
			Total		
			Total operating costs		
			<u>OPERATING STATISTICS</u>		
			Completed assemblies produced		
			Number of factory employees		
			Productive labor-hours earned		
			Maintenance craft hours		
	xx		Budget cost efficiency %		
	xx		Productive labor-hour activity %		
	xx		Labor efficiency %		
			Etc., etc.		

See Exhibit 7

Budget cost efficiency = $\frac{\text{Budget allowed \$}}{\text{Actual \$ spent}}$

Prod. labor-hour activity = $\frac{\text{Actual direct labor-hours}}{\text{Planned direct labor-hours}}$

Labor efficiency = $\frac{\text{Earned hours}}{\text{Actual hours}}$

EXHIBIT 5

EXHIBIT 6

OPERATING REPORT

SALES MANAGEMENT

MONTH ENDED , 1963

·········THIS MONTH··········				········YEAR TO DATE········	
ACTUAL	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACTUAL
			OPERATING COSTS AND EXPENSES - Corporate Office		
			Sales expense - General office		
			Product and distribution department		
			Market research department		
			Advertising department		
			Customer relations department		
			Export sales department		
			Etc., etc.		
			Total		
			OPERATING COSTS AND EXPENSES - Regional		
			North East Division		
			South East Division		
			Midwest Division	See Exhibit 9	
			Rocky Mountain Division		
			Pacific Coast		
			Total		
			Total sales expense		
			OPERATING STATISTICS		
			Number of sales employees		
			Unit sales - Assembly A		
			Unit sales - Assembly B		
	xx		Budget cost efficiency %	xx	
			Etc., etc.		

EXHIBIT 6

EXHIBIT 7

OPERATING REPORT

PRODUCTION DIVISION A

MONTH ENDED , 1963

THIS MONTH: ACTUAL	THIS MONTH: PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	YEAR TO DATE: PERFORMANCE FAVORABLE (UNFAVORABLE)	YEAR TO DATE: ACTUAL
			VARIANCE ANALYSIS		
			Direct labor - rate		
			Direct labor - efficiency		
			Burden - spending		
			Operating - material usage		
			Operating - scrappage		
			Total variations from standard		
			OPERATING COSTS - Period		
			Production administrative expenses		
			Production control		
			Total		
			OPERATING DEPARTMENTS		
			Receiving and shipping		
			Tool manufacturing		
			Forge shop		
			Foundry and heat treat		
			Component parts fabrications		
			Finished parts assemblies	See Exhibit 8	
			Etc.		
			Total		
			Total - Production Division A		
			OPERATING STATISTICS		
			Completed assemblies produced		
			Number of employees		
			Productive labor-hours earned		
	xx		Budget cost efficiency %	xx	
	xx		Productive labor-hours activity %	xx	
	xx		Labor efficiency %	xx	
			Etc.		

EXHIBIT 8

OPERATING REPORT

ASSEMBLY DEPARTMENT

MONTH ENDED __________, 1963

........THIS MONTH........				........YEAR TO DATE........	
ACTUAL	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACTUAL
			VARIANCE ANALYSIS		
			Direct labor - rate		
			Direct labor - efficiency		
			Burden - spending		
			Operating - material usage		
			Operating - scrappage		
			Total variations from standard		
			PRODUCTIVE COST CENTERS		
			Final assembly		
			Subassembly 1		
			Subassembly 2		
			Welding		
			Inspection and testing		
			Drilling, grinding and machining	See Exhibit 10	
			Painting		
			Etc.		
			Total Assembly Department costs		
			OPERATING STATISTICS		
			Completed assemblies		
			Number of employees		
			Productive labor-hours earned		
	xx		Budget cost efficiency %	xx	
	xx		Productive labor-hour activity %	xx	
	xx		Labor efficiency %	xx	
			Etc.		

EXHIBIT 8

EXHIBIT 9

OPERATING REPORT

MIDWEST SALES DIVISION

MONTH ENDED , 1963

........THIS MONTH........				........YEAR TO DATE........	
ACTUAL	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACTUAL
			OPERATING EXPENSES		
			Salaries		
			Fringe benefits		
			Office supplies		
			Utilities		
			Rentals		
			Transportation expense		
			Communications		
			Employee relations		
			Dues and education		
			Travel		
			Entertainment		
			Commissions		
			Advertising supplies		
			Purchased services		
			Etc., etc.		
			OPERATING STATISTICS		
			Number of employees		
	xx		Per cent of customers called on one time	xx	
	xx		Per cent of customers called on more than one time	xx	
			Etc., etc.		

Note: Administrative cost centers would have operating reports quite similar to this - therefore not illustrated.

EXHIBIT 9

EXHIBIT 10

OPERATING REPORT

DRILLING, GRINDING AND MACHINING
MONTH ENDED 1963

.........THIS MONTH..........				........YEAR TO DATE........	
ACTUAL	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACCOUNT CODE	ACTIVITY DESCRIPTION	PERFORMANCE FAVORABLE (UNFAVORABLE)	ACTUAL
			VARIANCE ANALYSIS		
			Direct labor - rate		
			Direct labor - efficiency		
			Burden - spending		
			Operating - scrappage		
			Total variations from standard		
			OPERATING COSTS - Labor		
			Direct labor		
			OPERATING COSTS - Variable burden		
			Set-up labor		
			Rework		
			Training time		
			Delays		
			Indirect labor		
			Overtime premium		
			Fringe benefits		
			Cutting tools		
			Other expendable equipment		
			Process supplies		
			Factory supplies		
			Etc.		
			TOTAL OPERATING COSTS		
			OPERATING STATISTICS		
			Number of employees		
			Productive labor-hours earned		
	xx		Budget cost efficiency %	xx	
	xx		Productive labor-hour activity %	xx	
	xx		Labor efficiency %	xx	
			Etc.		

EXHIBIT 10

EXHIBIT 11

QUARTERLY ANALYSIS OF CHANGES IN PROFIT PLAN

QUARTER BEGINNING , 1963

.....YEAR TO DATE......		........................NEXT QUARTER......................		..........CAUSE OF CHANGE..........							
ACTUAL	PLAN	ORIGINAL PLAN	REVISED PLAN	PRICE CHANGES	PHYSICAL VOLUME	OTHER		NEXT QUARTER BY MONTHS - REVISED MONTH 1	MONTH 2	MONTH 3	REVISED PLAN TO DEC. 31
							GROSS SALES DOLLARS				
							Less discounts and price adjustments				
							NET SALES AND LEASE DOLLARS				
							Less variable product costs				
							GROSS MARGIN CONTRIBUTION				
							Less variances - Product costs				
							NET MARGIN CONTRIBUTION				
							Less period costs:				
							Unused capacity				
							Manufacturing				
							Engineering				
							Sales				
							General and administrative				
							Total				
							NET OPERATING INCOME				
							Non-operating expenses (Income) - Net				
							INCOME BEFORE TAXES				
							Inventory adjustment period costs				
							Deferred research and development (net)				
							NET INCOME BEFORE TAXES				
							Operating Data				
							BREAKEVEN VOLUME				
%	%	%	%				Breakeven volume % of net sales	%	%	%	%
							GROSS ASSETS				
%	%	%	%				% return on gross assets	%	%	%	%

Factors in this column could be such items as major wage increases, material price adjustments, etc., and should be identified.

EXHIBIT 11